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No. 92-114

Supreme Court, U.S.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1992

CARDINAL CHEMICAL COMPANY, a partnership,
W.M. QUATTLEBAUM, JR., DOROTHY QUATTLEBAUM,
and W.M. QUATTLEBAUM, III, individuals,
CARDINAL MANUFACTURING CO., and
CARDINAL STABILIZERS, INC.,

Petitioners,

v.

MORTON INTERNATIONAL, INC.,

Respondent.

**On Writ Of Certiorari To The
United States Court Of Appeals
For The Federal Circuit**

PETITIONERS' BRIEF ON THE MERITS

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QUESTION PRESENTED

Whether the Court of Appeals for the Federal Circuit errs when it vacates a declaratory judgment holding an asserted patent invalid merely because it determines that the patent is not infringed.

PARTIES TO PROCEEDING

All parties to the proceeding below are set forth in the caption to the case. Pursuant to Rule 29.1 of the Rules of this Court, petitioners state that none of them have any non-wholly owned subsidiaries, nor do they have any parent corporations.

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CARDINAL CHEMICAL COMPANY, a partnership,
 W.M. QUATTLEBAUM, JR., DOROTHY QUATTLEBAUM,
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 CARDINAL MANUFACTURING CO., and
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MORTON INTERNATIONAL, INC.,
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PETITIONERS' BRIEF ON THE MERITS
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OPINIONS BELOW

The opinion of the United States Court of Appeals for the Federal Circuit is reported at 959 F.2d 948 (Fed. Cir. 1992) and 22 U.S.P.Q.2d (BNA) 1231 and reproduced in Appendix A to the Petition for a Writ of Certiorari ("Pet. App.") at 1a-15a. The opinion of Chief Judge Nies of the Federal Circuit dissenting from the orders declining suggestions for rehearing in banc is reported at 967 F.2d 1571 (Fed. Cir. 1992)

and 23 U.S.P.Q.2d (BNA) 1362; it is reproduced in Pet. App. B at 16a-31a. The opinion and order of the district court, entered December 12, 1990, is not reported; the public version of the opinion is reproduced in Pet. App. C at 32a-70a.

JURISDICTION

The judgment of the Court of Appeals was entered on March 20, 1992. The petitions for rehearing were denied on April 17, 1992. Pet. App. D-E at 71a-72a. The Petition for a Writ of Certiorari was filed on July 16, 1992 and granted on October 5, 1992. 61 U.S.L.W. 3219 (U.S. Oct. 5, 1992) (No. 92-114). This Court has jurisdiction to review the judgment of the Court of Appeals pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The Declaratory Judgment Act, 28 U.S.C. § 2201, provides in pertinent part:

(a) In a case of actual controversy within its jurisdiction, except with respect to Federal taxes other than actions brought under section 7428 of the Internal Revenue Code of 1986, [26 U.S.C. § 7428] a proceeding under section 505 or 1146 of title 11 [11 U.S.C. § 505 or 1146], or in any civil action involving an antidumping or countervailing duty proceeding regarding a class or kind of Canadian merchandise, as determined by the administering authority, any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further

relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.

STATEMENT OF THE CASE

The Respondent, Morton International, Inc. ("Morton" or "Respondent"), filed the present suit on April 12, 1983 in the United States District Court for the District of South Carolina alleging infringement by Petitioner Cardinal Chemical Company et. al. ("Cardinal" or "Petitioner") of United States Patents 4,062,881 ("the '881 patent") and 4,120,845 ("the '845 patent"). The claims of Morton's patents cover certain organotin compounds. Cardinal filed a counterclaim pursuant to the Declaratory Judgment Act, 28 U.S.C. § 2201, seeking a declaration that Morton's patents were invalid. Joint Appendix ("J.A.") at 8 and 53.

While the present suit was pending, Morton sued Argus Chemical Corporation ("Argus") in the United States District Court for the Eastern District of Louisiana for infringement of the same two patents. After a trial on the merits in that case, the court found Morton's patents to be invalid and not infringed. *Morton Thiokol, Inc. v. Witco Chemical Corp. and Argus Chem. Corp.*, No. 84-5685 (E.D. La. 1988); J.A. at 36. On appeal, the Court of Appeals for the Federal Circuit ("Federal Circuit") affirmed the finding of noninfringement and vacated the finding of invalidity. *Morton Thiokol, Inc. v. Argus Chem. Corp.* 11 U.S.P.Q.2d (BNA) 1152 (Fed. Cir. 1989) (non-precedential); J.A. at 38.¹

¹ Morton has filed a third suit alleging infringement of its

Subsequently, the present suit went to trial. The district court found the patents not infringed and granted Cardinal's request for declaratory judgment that the patents were invalid. Pet. App. C at 70a. The patents were found invalid on the same grounds as they had previously been found invalid by the *Argus* court. J.A. at 36. The court, however, denied Cardinal's request for a finding that the case was exceptional under 35 U.S.C. § 285. Pet. App. C at 69a-70a.

Morton appealed the district court's decision on the issues of validity and infringement and Cardinal cross-appealed the determination of exceptional case to the Federal Circuit. The Federal Circuit affirmed the district court's finding of noninfringement, but vacated the declaratory judgment of invalidity. As justification for its decision, the court stated:

Since we have affirmed the district court's holding that the patents at issue have not been infringed, we need not address the question of validity. *Vieau v. Japax, Inc.*, 823 F.2d 1510, 1517, 3 U.S.P.Q.2d 1094, 1100 (Fed. Cir. 1987). Accordingly, we vacate the holding of invalidity.

Pet. App. A at 9a.²

patents, *Morton Int'l, Inc. v. Atochem N. America, Inc.*, No. 87-60-CMW (D. Del.). That case is presently stayed pending the disposition of this proceeding.

² Because the court did not reach the validity issue it could not properly evaluate the egregiousness of Morton's continued suit against Cardinal on an invalid patent and therefore denied Cardinal's claims for an exceptional case award under 35 U.S.C. § 285. Pet. App. A at 9a-10a.

Both Morton, the patent owner, and Cardinal, the accused infringer, petitioned the panel for rehearing arguing that the court should have reached the validity issue. Both petitions were denied. Pet. App. D-E at 71a-72a. Following the panel's denial of the petitions for rehearing, the full court, by a divided vote, denied both parties' suggestions for rehearing in banc. Pet. App. F-G at 73a-74a. Chief Judge Nies, and Judges Rich and Lourie dissented from the denial of rehearing in banc, with Chief Judge Nies issuing a separate dissenting opinion. Pet. App. B at 16a-31a.

The court's decision to vacate the finding of invalidity was not an isolated incident. The Federal Circuit began to review declaratory judgments on the issue of patent validity soon after it was given exclusive subject matter jurisdiction over patent appeals, 28 U.S.C. § 1295(a)(1). Initially, the court routinely reviewed judgments as to validity before or in conjunction with judgments of noninfringement. *See, e.g., Mannesmann Demag Corp. v. Engineered Metal Prod.*, 793 F.2d 1279 (Fed. Cir. 1986).

On June 16, 1987, the Federal Circuit issued two decisions which dramatically departed from this practice. Those decisions held that in cases in which the accused infringer has obtained a declaratory judgment on validity, the court's holding of non-infringement renders the issue of validity "moot" and requires that the declaratory judgment be vacated. *Vieau v. Japax, Inc.*, 823 F.2d 1510, 1517 (Fed. Cir. 1987); *Fonar Corp. v. Johnson & Johnson*, 821 F.2d 627, 634 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1027 (1988).

Since *Vieau* and *Fonar*, the Federal Circuit has routinely vacated declaratory judgments finding pat-

ents invalid and not invalid³ once it has determined that there was no infringement. See, e.g., *Sun-Tek Indus., Inc. v. Kennedy Sky Lites, Inc.*, 848 F.2d 179, 183 (Fed. Cir. 1988), *cert. denied*, 488 U.S. 1009 (1989) (vacated declaratory judgment of invalidity); *Advance Transformer Co. v. Levinson*, 837 F.2d 1081, 1084 (Fed. Cir. 1988) (vacated declaratory judgment of invalidity); *Environmental Instruments, Inc. v. Sutron Corp.*, 877 F.2d 1561, 1566 (Fed. Cir. 1989) (vacated declaratory judgment finding patent not invalid).

The court's practice in this regard has developed into a *per se* rule which has been the subject of significant criticism. See J. Re and W. Rooklidge, *Vacating Patent Invalidity Judgments Upon an Appellate Determination of Noninfringement*, 72 J. Pat. & Trademark Off. Soc'y 780 (1990); R. Harmon, *Patents & the Federal Circuit*, 551-54 (2d ed. 1991); J. Donofrio, *The Disposition of Unreviewable Judgments by the Federal Circuit*, 73 J. Pat. & Trademark Off. Soc'y 462 (1991); H. Wegner, *Morton, The Dual Loser Patentee: Frustrating Blonder-Tongue*, 74 J. Pat. & Trademark Off. Soc'y 344 (1992). It is this practice, as applied in the present proceeding to vacate a declaratory judgment of invalidity, which was the subject of Cardinal's Petition for A Writ of Certiorari granted by this Court.

SUMMARY OF ARGUMENT

The Federal Circuit's practice of routinely vacating declaratory judgments of patent invalidity is erro-

³ Under Federal Circuit precedent patents are not adjudged "valid," but are found "not invalid." *Environmental Designs, Ltd. v. Union Oil Co. of Cal.*, 713 F.2d 693, 699 n.9 (Fed. Cir. 1983), *cert. denied*, 464 U.S. 1043 (1984).

neous. The practice is predicated upon a misinterpretation of the decisions of this Court which has resulted in an unjustified extension of those decisions. The court has also failed to recognize the fundamental distinction between jurisdictional and prudential mootness, and by so doing has turned what should be a discretionary decision into a *per se* practice.

An examination of the prudential factors the Federal Circuit should consider in deciding whether to reach the issue of patent validity reveals that the challenged practice is clearly an abuse of discretion. The practice subverts the most basic principles of the Declaratory Judgment Act by depriving accused infringers of their district court judgment of invalidity and patent owners of a definitive judgment. It also undermines the concerns addressed by this Court in decisions such as *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971), by permitting relitigation of previously invalidated patents. Finally, the practice frustrates and devalues patent laws by permitting maintenance of tainted patents.

The erroneous nature of the Federal Circuit's practice is starkly illustrated by the anomalous situation produced in this case. The patents at issue had already been found invalid by one district court at the time this case went to trial. Morton, however, was not precluded from asserting those patents because the district court's finding of invalidity was vacated by the Federal Circuit pursuant to the practice presently under review. After incurring substantial litigation costs, Cardinal prevailed on its declaratory judgment claim only to have that second judgment of invalidity vacated by the Federal Circuit. Morton's

third action alleging infringement of these patents, with their presumption of validity accorded under 35 U.S.C. § 282, is now pending before the Delaware district court.

ARGUMENT

The Federal Circuit should have reached the issue of patent validity in this case. Contrary to the view of the Federal Circuit, the precedent of this Court supports reaching the merits of patent validity even after a finding of noninfringement when, as in this case, the issue is raised in a declaratory judgment claim. In addition, the prudential factors the Federal Circuit must consider in cases such as this one compel the conclusion that declaratory judgments on the issue of patent validity should be reviewed by the Federal Circuit in almost every circumstance in which it is raised on appeal.

I. THE PRACTICE OF THE FEDERAL CIRCUIT IS BASED ON MISINTERPRETATIONS OF THE DECISIONS OF THIS COURT AND THE MOOTNESS DOCTRINE

Although the Federal Circuit does not recognize these distinctions, its practice of vacating validity determinations falls into three categories: (1) cases such as this one in which the court vacates declaratory judgments finding the patent invalid;⁴ (2) cases in which the court vacates a declaratory judgment find-

⁴ *Vieau*, 823 F.2d at 1517; *Advance Transformer*, 837 F.2d at 1084; *Sun-Tek*, 848 F.2d at 183; *Freeman v. Minnesota Mining and Mfg. Co.*, 13 U.S.P.Q.2d (BNA) 1250, 1252 (Fed. Cir. 1989), cert. denied, ___ U.S. ___, 110 S.Ct. 1794 (1990) (non-precedential); *Morton Thiokol, Inc. v. Argus Chem. Corp.*, 11 U.S.P.Q.2d (BNA) 1152, 1153 (Fed. Cir. 1989) (non-precedential).

ing the patent not invalid;⁵ and (3) cases in which the court vacates validity determinations raised as an affirmative defense.⁶ There are still other cases in which the court applied the practice, but it is unclear from the opinions in those cases as to which category they belong.⁷ It is rare, however, that an accused infringer will not raise invalidity as both an affirmative defense and a counterclaim for declaratory judgment. Although this brief will address all three categories, it is the first category which is at issue in this case.

The Federal Circuit predicates its practice of routinely vacating judgments on patent validity primarily upon the decisions of this Court in *Electrical Fittings Corp. v. Thomas & Betts Co.*, 307 U.S. 241 (1939)

⁵ *Fonar*, 821 F.2d at 634; *Environmental Instruments*, 877 F.2d at 1568; *Pfaff v. Wells Elec. Inc.*, 12 U.S.P.Q.2d (BNA) 1158, 1159 (Fed. Cir. 1989) (non-precedential); *Specialized Electronics Corp. v. Aviation Supplies*, 12 U.S.P.Q.2d (BNA) 1918, 1921 (Fed. Cir. 1989) (non-precedential); *Neville Chemical Co. v. Resinall Corp.*, 1990 U.S. App. LEXIS 16549 at *5 (Fed. Cir. 1990) (non-precedential).

⁶ *Pennwalt Corp. v. Durand-Wayland, Inc.*, 833 F.2d 931, 939 (Fed. Cir. 1987). Indication that validity raised as affirmative defense can be found in the district court opinion. *Pennwalt Corp. v. Durand-Wayland, Inc.*, 225 U.S.P.Q. (BNA) 558 (N.D. Ga. 1984).

⁷ *Julien v. Zeringue*, 864 F.2d 1569, 1571 (Fed. Cir. 1989); *Senmed, Inc. v. Richard-Allan Medical Indus.*, 888 F.2d 815, 821 (Fed. Cir. 1989); *Wilson Sporting Goods Co. v. David Geoffrey & Assoc.*, 904 F.2d 677, 687 (Fed. Cir. 1990); *Winner Int'l Corp. v. Wolo Mfg. Corp.*, 905 F.2d 375, 377 (Fed. Cir. 1990); *Shat-R-Shield, Inc. v. Trojan, Inc.*, 1992 U.S. App. LEXIS 9860, *6-*7 (Fed. Cir.), cert. denied, ___ U.S. ___, 61 U.S.L.W. 3261 (1992) (non-precedential).

and *Altvater v. Freeman*, 319 U.S. 359 (1943). Specifically, the Federal Circuit has interpreted these cases as holding that the issue of patent validity becomes "moot" upon the appellate court's finding that the patent in issue is not infringed and that the controversy raised by the counterclaim does not extend beyond the patentee's infringement claim. *Vieau*, 823 F.2d at 1517-1521 (J. Bennett, concurring); *Fonar*, 821 F.2d at 634; *Sun-Tek*, 848 F.2d at 183; *Advance Transformer*, 837 F.2d at 1084.

As demonstrated below, an examination of *Electrical Fittings* and *Altvater* and the doctrine of mootness reveal that the Federal Circuit is not required to vacate declaratory judgments of invalidity upon a finding of noninfringement. Indeed, these cases and the prudential factors inherent in the validity issue support the conclusion that the issue of validity should be reached in virtually every case.

The Federal Circuit's practice is based upon a progression of misinterpretations leading to an erroneous conclusion. First, the court's opinions do not take into consideration the significance of the critical distinction this Court drew in *Altvater* between cases in which the question of validity is raised as an affirmative defense and cases, such as this one, in which validity is raised by means of a counterclaim for declaratory judgment. Secondly, the court interprets *Altvater* too broadly by failing to recognize that the case involves principles of licensee estoppel which are now obsolete. Finally, the Federal Circuit's application of the doctrine of mootness is self-contradictory as it fails to appreciate the distinction between jurisdictional and prudential mootness.

This Court first addressed the question of the disposition of validity determinations when the court finds no infringement in *Electrical Fittings*. In that case the district court found the patent at issue to be valid, but not infringed by the defendant. The validity issue was raised only as an affirmative defense. *Thomas & Betts Co. v. Electrical Fittings Corp.*, 23 F. Supp. 920 (S.D.N.Y. 1938). The defendant appealed the district court's decision finding the patent valid. The Second Circuit dismissed the appeal on the ground that the defendant had been awarded all of the relief to which it was entitled. *Thomas & Betts Co. v. Electrical Fittings Corp.*, 100 F.2d 403 (2d Cir. 1938).

On review, this Court reversed the holding of the Second Circuit. The Court did not reach the merits of the validity issue, but held that because the district court had found that the defendant had not infringed the patent, the court should not have reached the question of validity. Accordingly, the Court instructed the district court to vacate the portion of the judgment which adjudicated the patent valid. *Electrical Fittings*, 307 U.S. at 242-43.

The Court found it necessary to address this issue again in *Altvater*. In that proceeding the defendants were sued for specific performance of a license agreement under a patent. The defendants counterclaimed for a declaratory judgment finding one patent invalid. The district court found that defendants had not infringed the patent and, thus, had not breached the license agreement. The court also ruled on the counterclaim finding that the patent was invalid. The Eighth Circuit affirmed the finding of noninfringement. Relying on *Electrical Fittings*, however, the

court ruled that as a result of the finding of no infringement "there then remained no justiciable controversy," and, therefore, ordered the judgment of invalidity vacated. *Freeman v. Altvater*, 130 F.2d 763, 765 (8th Cir. 1942).

This Court granted certiorari "because of the apparent misinterpretation by the Circuit Court of Appeals of our decision in *Electrical Fittings*" *Altvater*, 319 U.S. at 363. The Court then proceeded to reverse the Court of Appeals. In so doing the Court distinguished the case before it from *Electrical Fittings*, stating:

That case [*Electrical Fittings*] was tried only on bill and answer. The District Court adjudged a claim of a patent valid although it dismissed the bill for failure to prove infringement. We held that the finding of validity was immaterial to the disposition of the cause and that the winning party might appeal to obtain a reformation of the decree. To hold a patent valid if it is not infringed is to decide a hypothetical case. [footnote omitted] But the situation in the present case is quite different. We have here not only bill and answer but a counterclaim. Though the decision of non-infringement disposes of the bill and answer, it does not dispose of the counterclaim which raises the question of validity.

Id.

Based upon this distinction, the Court went on to find that:

[T]he issues raised by the present counterclaim were justiciable and that the controversy between the parties did not come to an end [citation omitted] on the dismissal of the bill for non-infringement, since their dispute went beyond the single claim and the particular accused devices involved in that suit.

Id. at 363-64.

The Federal Circuit interprets these decisions as supporting its practice of vacating validity determinations upon a finding of noninfringement as explained by Judge Bennett in his concurrence in *Vieau*:

Thus, the precedent from the Supreme Court and this court makes clear that when a cross-appeal on a counterclaim seeking a declaratory judgment on validity remains following a determination of non-infringement by the appellate court, an inquiry into whether there is a continuing case or controversy should be made in order to determine if the validity issue raised by the cross-appeal should be considered by the appellate court. The appellate court need go on to rule on the merits of the cross-appeal only if there is a continuing dispute

Vieau, 823 F.2d at 1520 (J. Bennett, concurring).

A. The Federal Circuit Does Not Properly Distinguish Between Validity When Raised As An Affirmative Defense And When Raised In A Declaratory Judgment Counterclaim

The Federal Circuit's incorrect interpretation of *Electrical Fittings* and *Altvater* begins when it fails to recognize the distinction *Altvater* makes between

the question of validity when raised as an affirmative defense and when raised as a counterclaim for declaratory judgment. In *Altwater* this Court found that a counterclaim for a declaratory judgment as to validity should not be treated the same as an affirmative defense which asserts that the patent is invalid. This fact was what distinguished *Altwater* from *Electrical Fittings*: "[b]ut the situation in the present case is quite different. We have here not only bill and answer but counterclaim." *Altwater*, 319 U.S. at 363.

The reason for this distinction is quite obvious. No defendant in any lawsuit has the right to an adjudication of issues raised by way of affirmative defenses if the plaintiff has failed to establish a *prima facie* case. See Markey, *On Simplifying Patent Trials*, 116 F.R.D. 369, 377 (1987) ("[w]ithout infringement, there is no case or controversy on the validity defense, and a patentee that has not carried its burden of proving infringement has no right or reason to remain in the trial court"); see also Pet. App. B at 26a n. 7. The right to obtain a declaratory judgment, on the other hand, is not contingent upon the plaintiff's ability to establish a *prima facie* case, but depends upon the existence of an "actual controversy." *United Public Workers v. Mitchell*, 330 U.S. 75, 116 (1947).

The importance of this distinction has been lost on the Federal Circuit. For instance, the Federal Circuit has instructed lower courts that they should always decide both infringement and validity. *Stratoflex, Inc. v. Aeroquip Corp.*, 713 F.2d 1530, 1540-41 (Fed. Cir. 1983) ("[w]hen presented with patent validity and infringement issues, trial courts should, as Judge Boyle did here, decide both"). This instruction fails to rec-

ognize that if the plaintiff has failed to make a *prima facie* case on infringement, *Electrical Fittings* requires that the court not adjudge the patent not invalid when validity has only been raised by means of an affirmative defense. See *Deposit Guaranty Nat'l Bank v. Roper*, 445 U.S. 326, 335-36 (1980) ("The District Court [in *Electrical Fittings*] was correct in inquiring fully into the validity of the patent, *Sinclair & Carroll Co. v. Interchemical Corp.*, 325 U.S. 327, 330 (1945), but was incorrect to adjudge the patent valid after ruling that there had been no infringement. By doing so, the District Court had decided a hypothetical controversy").

The Federal Circuit consistently vacates determinations on the issue of validity without regard to whether the validity issue was raised by way of an affirmative defense or a declaratory judgment counterclaim. Compare *Environmental Instr.*, 877 F.2d at 1566 (practice applied to vacate judgment on counterclaim) with *Pennwalt*, 833 F.2d at 939 (practice applied to vacate finding that patent was not invalid based on affirmative defense of invalidity). In fact as noted previously, in many of the cases in which the practice is invoked, one cannot even ascertain from the court's opinion the context in which the validity issue came into controversy. See Footnote 6.

Because *Electrical Fittings* clearly requires vacatur upon a finding of noninfringement if the validity issue was raised and addressed in the form of an affirmative defense, and *Altwater* teaches that the court should treat validity differently when raised as a counterclaim, the Federal Circuit's failure to recognize the distinction impairs its analysis from the outset. In the rare cases in which validity is raised solely

as an affirmative defense, the Federal Circuit's practice of vacating validity determinations is in keeping with *Electrical Fittings*. In cases such as this one, however, where validity is the subject of a declaratory judgment claim, the Federal Circuit is obliged by *Altwater*, and by other considerations discussed herein, to review the validity determination in almost all circumstances.

B. The Federal Circuit Interprets *Altwater* Incorrectly

The Federal Circuit also interprets *Altwater* too broadly by failing to recognize that the decision, in the words of Chief Judge Nies of the Federal Circuit, is "interlaced with principles of licensee estoppel." Pet. App. B at 21a. Recognition of the role licensee estoppel plays in *Altwater* is important because, as noted above, the Federal Circuit reads *Altwater* as requiring that a continuing case or controversy exist beyond the scope of the patentee's complaint before it can consider the merits of the district court's decision on validity. *Vieau*, 823 F.2d at 1520 (J. Bennett, concurring). This interpretation stems from the statement in *Altwater* that the issues raised by the counterclaim were justiciable "since their dispute went beyond the single claim and the particular accused devices involved in that suit." *Altwater*, 319 U.S. at 364. This portion of *Altwater*, however, is not germane to the case or controversy analysis.

As noted above, the underlying cause of action in *Altwater* was for specific performance of a patent license agreement. Under the principles of licensee estoppel in effect at the time, a "licensee under a patent license agreement may not challenge the validity of the licensed patent in a suit for royalties due under

the contract." *Automatic Radio Mfg. Co. v. Hazeltine Research*, 339 U.S. 827, 836 (1950), (citing *United States v. Harvey Steel Co.*, 196 U.S. 310 (1905)). Thus, under the doctrine, a licensee is permitted to attack the validity of the patent only in certain limited circumstances. See, e.g., *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947) (licensee estoppel not applied in light of price-fixing provision of license).

As Chief Judge Nies points out in her dissent from the orders declining the suggestions for rehearing in banc, *Altwater* came twenty-five years before this Court overruled the doctrine of licensee estoppel in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) for this reason:

[T]he discussion of case or controversy must be read in the context of that age—a time when a licensee had to base its declaratory judgment claim on a controversy beyond the patentee's assertion of a right to royalties under the license.

Pet. App. B at 21a.

It is questionable whether the portion of *Altwater* addressing additional claims or devices was even intended at the time as a limitation on whether a case or controversy continued to exist. The comment regarding additional claims and devices was what led the court to decide in that case that a continuing case or controversy existed. It was intended to be illustrative, not restrictive, of the application of the more general principle that a counterclaim is different from an affirmative defense. This view is shared by courts which have interpreted *Altwater* as holding that the

mere existence of the counterclaim is sufficient to create a case or controversy regardless of whether it extends beyond the accused articles and claims. See *Burgess & Assoc., Inc. v. Klingensmith*, 487 F.2d 321, 324 (9th Cir. 1973) ("Our holding that Klingensmith's devices do not infringe the '738 patent does not render moot the question of the patent's validity, since its validity is challenged in Klingensmith's counterclaim"); *Puett Elec. Starting Gate Corp. v. Harford Agricultural & Breeders' Ass'n*, 88 F. Supp. 360, 371-72 (D. Md. 1949).

Nevertheless, even if the statement was relevant to the existence of a continuing case or controversy, it was relevant only to the extent that it established that the licensee had standing to challenge the patent's validity in spite of the strictures of the doctrine of licensee estoppel. As noted by Chief Judge Nies, the demise of the doctrine of licensee estoppel means that the requirement of additional claims or devices beyond those alleged in the complaint is no longer germane to the interpretation of *Altvater*. Pet. App. B at 21a-22a.

The necessity of interpreting *Altvater* narrowly in light of the inapplicability of licensee estoppel is best illustrated by the absurd result which follows from the broad interpretation of the Federal Circuit. Under the Federal Circuit's interpretation, an accused infringer can obtain a declaratory judgment for claims of the patent that were not asserted in the underlying suit, but not for those claims that were, even though "the patentee's suit in itself shows that a controversy rages as to the asserted patent claims." Pet. App. B at 21a.

The Federal Circuit, however, does not even adhere to its interpretation of *Altvater*. Despite the Court's statement that "an inquiry into whether there is a continuing case or controversy should be made in order to determine if the validity issue raised by the cross-appeal should be considered by the appellate court," *Vieau*, 823 F.2d at 1520 (J. Bennett, concurring), in reality no such inquiry takes place. As discussed in more detail in section II. A. of this brief, the Federal Circuit's practice of vacating validity determinations is automatic. The court makes no inquiry into the existence of a continuing case or controversy, but dispenses with the validity issue in each instance by invoking the policy and citing to *Vieau* or *Fonar*. See, e.g., *Senmed, Inc. v. Richard-Allan Medical Indus.*, 888 F.2d 815, 817 n.4 (Fed. Cir. 1989); *Julien v. Zeringue*, 864 F.2d 1569, 1571 (Fed. Cir. 1989).

C. The Federal Circuit Misapplies The Doctrine Of Mootness

When first enunciating in *Vieau* the rationale for its practice of vacating declaratory judgments of invalidity, the Federal Circuit stated:

Since there is no indication in the present case that the controversy between the parties extends beyond the accused devices found to be non-infringing, this court properly exercises its discretion to dismiss the cross-appeal in this case as moot.

823 F.2d at 1521.

The above statement is self-contradictory. If there truly is no case or controversy, vacatur is not discretionary, but required. Conversely, if the court is exercising its discretion, it must be doing so for rea-

sons other than the lack of a case or controversy. As Chief Judge Nies noted in her dissent from the order declining the suggestion for rehearing in banc, the Federal Circuit's confusion in this regard results from the court's failure to discern the difference between "jurisdictional" mootness and "prudential" mootness. Pet. App. B at 22a-26a.

Jurisdictional mootness arises when the dispute underlying an issue no longer exists thereby depriving the court of jurisdiction over the case, i.e., there is no case or controversy. *Powell v. McCormack*, 395 U.S. 486, 496 n.7 (1969). When a case is jurisdictionally moot a court has no discretion and must dismiss for lack of jurisdiction. *Id.*; *Brownlow v. Schwartz*, 261 U.S. 216, 218-19 (1923). Prudential mootness, on the other hand, is not really mootness at all, but arises when a court chooses, as a matter of discretion, to address one dispositive issue rather than another.⁸ See *United States v. Leon*, 468 U.S. 897, 924-25 (1984); *Penthouse Int'l v. Meese*, 939 F.2d 1011, 1019-20 (D.C. Cir. 1991); *Air Line Pilots Ass'n, Int'l v. UAL Corp.*, 897 F.2d 1394, 1397 (7th Cir. 1990). In vacating declaratory judgments of invalidity, the Federal Circuit confuses and, accordingly, improperly merges the two forms of mootness.

In order to pursue a claim for declaratory relief a party must be able to demonstrate the existence of an actual controversy over which a federal court may

⁸ Prudential mootness has been described as the "cousin of the mootness doctrine. . . . a melange of doctrines relating to the court's discretion in matters of remedy and judicial administration." *Chamber of Commerce of the United States v. United States Dept. of Energy*, 627 F.2d 289, 291 (D.C. Cir. 1980).

exercise jurisdiction. "The controversy must be definite and concrete, touching the legal relations of parties having adverse legal interests." *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240-41 (1937). This Court has found that "[t]he difference between an abstract question and a 'controversy' contemplated by the Declaratory Judgment Act ['Act'] is necessarily one of degree, and it would be difficult, if it would be possible, to fashion a precise test for determining in every case whether there is such a controversy." *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941). If such a controversy is found not to exist, however, then the claim is jurisdictionally moot.

The Federal Circuit has recognized that "[c]ourts have interpreted the controversy requirement in the patent field to generally mean that the declaratory plaintiff has sufficient interest in the controversy and that there is a reasonable threat that the patentee or licensor will bring an infringement suit against the alleged infringer." *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 879 (Fed. Cir. 1983). In such circumstances the court must make "a pragmatic judgment in the light of [the patentee's] entire course of action and all [the patentee's] relevant conduct, and with the awareness of the business realities that are involved." *Air-Vend, Inc. v. Thorne Indus., Inc.*, 625 F. Supp. 1123, 1127 (D. Minn. 1985) (citing *Sherwood Medical Indus., Inc. v. Deknatel, Inc.*, 512 F.2d 724, 728 (8th Cir. 1975)). As Chief Judge Nies explains: "[a] declaratory action for a judgment of invalidity is based on a fear of suit under the patent. Such fear is not dependent on being held *liable* for infringement." Pet. App. B at 26a-27a.

Thus, a case or controversy exists so long as a legitimate fear of suit exists. Extinguishment of liability as to certain allegations of an infringement suit does not necessarily equate to extinguishment of the fear of suit which forms the predicate for the declaratory judgment counterclaim. Indeed, "nothing short of the patentee's unconditional guarantee not to do so under any circumstances ordinarily will remove that apprehension and thereby jurisdictionally moot the claim for declaratory relief." Pet App. B at 27a.⁹

A number of cases illustrate the application of this principle. In *Bard*, an affidavit of the patentee that it had no intention of suing the declaratory plaintiff was insufficient to moot the asserted declaratory claim. *Bard*, 716 F.2d at 881. The entry of a stipulation and order dismissing a counterclaim of infringement and stipulating that the asserted patent had not been infringed has been found not to extinguish case or controversy in cases seeking declaratory judgment of invalidity. *Air-Vend*, 625 F. Supp. at 1128. In *Dale Electronics, Inc. v. R.C.L. Electronics, Inc.*, 488 F.2d 382 (1st Cir. 1973), the court found a defendant in a patent infringement suit was entitled to a determination on its counterclaim seeking a declaration that the patent was invalid despite the fact the patent holder withdrew its claims of infringement. *Id.* at 390.

⁹ See *County of Los Angeles v. Davis*, 440 U.S. 625, 631 (1979) (case is moot only when "(1) it can be said with assurance that 'there is no reasonable expectation . . . that the alleged violation will recur . . . and (2) interim relief or events have completely and irrevocably eradicated the effects of the alleged violation'").

An attestation from a patent owner that it would never sue the declaratory judgment claimant was insufficient to moot the declaratory claim in *Wallace & Tiernan Inc. v. General Electric Co.*, 291 F. Supp. 217 (S.D.N.Y. 1968); see also *Shelcore, Inc. v. Durham Indus., Inc.*, 745 F.2d 621, 624 (Fed. Cir. 1984) ("By voluntarily dismissing with prejudice claim 13 of the '831 utility patent, Shelcore removed the issue of infringement of claim 13 from the trial court's consideration. But Shelcore could not unilaterally remove the validity issue because Durham's counterclaim put validity of all the claims in issue").

In this case Morton has made no representation to Cardinal that it does not intend to continue to enforce the subject patents. Indeed, Morton's decision to twice appeal declaratory judgments finding the subject patents invalid and to continue to pursue a third infringement suit under these patents in the United States District Court for the District of Delaware confirms that Cardinal's continued apprehension of suit under these patents is reasonable and has not been erased by the affirmance of the judgment of noninfringement.

These facts make it clear that the Federal Circuit's assumption that a finding of noninfringement eliminates the controversy underlying the declaratory judgment of invalidity is erroneous. Chief Judge Nies reached this conclusion in her dissent below stating: "[a] finding of noninfringement does not moot a declaratory claim for invalidity *jurisdictionally* regardless of the scope of the patentee's infringement suit." Pet. App. B at 26a (emphasis in original).

Cardinal's declaratory judgment counterclaim is also not jurisdictionally moot because the court of appeals

cannot jurisdictionally moot the claim by its own action. In *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950), this Court held that cases become jurisdictionally moot on appeal through events which occur "through happenstance" after the district court enters judgment, while the claim is on its way to the appellate court or pending the appellate court's decision. *Id.* at 40. *Munsingwear*, however, does not contemplate jurisdictional mootness created by the appellate court's decision to address one issue rather than another such as the Federal Circuit seems to assume. As the Seventh Circuit stated recently:

Although the word "moot" is sometimes used to refer to an issue that need not be decided in light of the resolution in the same opinion of another issue, *e.g.*, *Bazemore v. Friday*, 478 U.S. 385, 387 n.2, 106 S. Ct. 3000, 3002 n.2, 92 L.Ed.2d 315 (1986) (per curiam), it has never been thought that a court that does decide it thereby violates Article III's implied prohibition against deciding moot cases. *United States v. Leon*, 468 U.S. 897, 924-25, 104 S. Ct. 3405, 3421, 82 L.Ed. 2d 677 (1984); 13A Wright, Miller & Cooper, Federal Practice and Procedure § 3533, at p. 214 (2d ed. 1984).

Air Line Pilots, 897 F.2d at 1397; see also *Flast v. Cohen*, 392 U.S. 83, 97 (1968) ("Because [such] rules operate in 'cases confessedly within [the Court's] jurisdiction' [citation omitted] they find their source in policy, rather than purely constitutional considerations"); *Penthouse*, 939 F.2d at 1019 (Prudential mootness is concerned "not with the court's power under

Article III to provide relief, but with the court's discretion in exercising that power").

What this distinction means in cases such as this one was succinctly stated by Judge Lourie is his concurrence to the decision below:

[B]ecause this court is not a court of last resort, a holding of either invalidity or non-infringement by our court does not render the case moot because it is not over. Therefore, when both infringement and validity issues are presented on appeal, we can base our affirmance on both grounds, thereby leaving a complete judgment available for review by the Supreme Court. [footnote omitted]. We are not compelled to address both or to address them in any order. The power to choose one or the other is not a matter of policy, but of discretion, considering the circumstances of the individual case.

Pet. App. A at 12a-13a.

As the foregoing demonstrates, when the Federal Circuit is faced with the option of deciding the case on infringement, validity or both, its choice is not foreordained, but is a matter of discretion. As the remainder of this brief will illustrate, the Federal Circuit has discretion in cases such as this one and it should consider certain prudential factors in determining how to proceed.

II. THE FEDERAL CIRCUIT'S PRACTICE IS AN ABUSE OF DISCRETION

The authority the Federal Circuit relies upon to support its practice of vacating declaratory judgments of invalidity, when it determines there is no infringe-

ment, reveals that the practice is not mandatory. If not mandatory, is the practice an appropriate exercise of discretion under the doctrine of prudential mootness?

In considering whether to apply the doctrine of prudential mootness courts should not utilize "inflexible, formalistic rules," but should proceed on a "case-by-case basis" examining "the feasibility or futility of effective relief should a litigant prevail." *In re AOV Industries, Inc.*, 792 F.2d 1140, 1147-48 (D.C. Cir. 1986). The doctrine should be applied only in those circumstances in which the controversy is "so attenuated that considerations of prudence and comity . . . counsel the court to stay its hand, and to withhold relief it has the power to grant." *Chamber of Commerce*, 627 F.2d at 291.

The Federal Circuit clearly is not applying these considerations on a case-by-case basis because the practice at issue is improperly utilized as a *per se* rule in every situation. Moreover, the relief sought in these cases, *i.e.*, a ruling on the validity of a patent, is neither "futile" nor "attenuated." The prudential factors implicated by the practice clearly demonstrate that a decision is not only feasible, but necessary.

A. The Practice Is Improperly Applied As A *Per Se* Rule

As discussed in Section I.C., Federal Circuit opinions indicate some confusion over whether the court believes its practice of vacating declaratory judgments of patent invalidity upon a finding of noninfringement is mandatory or discretionary. If the court believes it is exercising discretion, then it has not acted consistently with that belief. Vacatur of declaratory judgments of invalidity by the Federal Circuit is an

automatic, fixed practice.¹⁰ As Chief Judge Nies has observed: "the precedent of this court now takes a 'one-size-fits-all' approach to treatment of the issue of validity." Pet. App. B at 23a. *See also Shat-R-Shield, Inc. v. Trojan, Inc.*, 1992 U.S. App. LEXIS 9860 (Fed. Cir.), *cert. denied* — U.S. —, 61 U.S.L.W. 3261 (1992) (vacatur of invalidity judgment referred to "usual practice"); *Gould v. Control Laser Corp.*, 866 F.2d 1391, 1397 (Fed. Cir. 1989) (J. Nichols, dissenting) (vacatur of invalidity judgment referred to as court's "established procedure").

As noted above, the doctrine of prudential mootness "cannot be cabined by inflexible, formalistic rules, but instead require a case-by-case judgment." *AOV*, 792 F.2d at 1147. In consistently relying on its "one-size-fits-all" approach, the Federal Circuit is not exercising discretion, but rather is improperly establishing a rule. It is a constant principle of law that "the application of a *per se* rule to a matter that requires the exercise of discretion would constitute reversible error." *Perez v. Ortiz*, 849 F.2d 793, 798 (2d Cir. 1988) (citing *Plunkett v. Johnson*, 828 F.2d 954, 956 (2d Cir. 1987)). As this Court has explained: "a rule applicable to all cases is not to exercise discretion. Such a rule ignores the differences which invoke discretion, and which can alone justify its exercise. . . ."

¹⁰ Cardinal has only located two published decisions since *Vieau* and *Fonar* in which the court has not followed this practice: *Tol-O-Matic v. Proma Produkt-Und Marketing*, 945 F.2d 1546 (Fed. Cir. 1991) and *Consolidated Alum. Corp. v. Foseco*, 910 F.2d 804 (Fed. Cir. 1990). Neither case even acknowledges existence of the practice, let alone tries to distinguish *Vieau* and *Fonar*.

United States ex. rel. Steinmetz v. Allen, 192 U.S. 543, 563 (1904).

As the subsequent portions of this brief will demonstrate, there are a number of factors the court must consider in determining whether to reach the issue of validity. The Federal Circuit, by applying its practice in virtually every case, does not even allow itself the opportunity to consider these factors; this failure constitutes an abuse of discretion.

B. The Practice Eviscerates The Remedy Afforded By The Declaratory Judgment Act

As addressed in detail in the section on mootness, a case or controversy under the Declaratory Judgment Act clearly continues to exist in this action with respect to Cardinal's counterclaim despite the Federal Circuit's decision upholding the district court's finding of noninfringement. The factors which support the conclusion that a finding of noninfringement by the Federal Circuit does not moot the issue of validity also support the conclusion that the Federal Circuit should reach the issue of validity on appeal. The Federal Circuit abuses its discretion by ignoring these principles. Its practice also dramatically limits the intended effect of the Declaratory Judgment Act.

The Declaratory Judgment Act was enacted to provide a remedy to persons seeking a declaration of their rights in cases of actual controversy. 19 U.S.C. § 2201. It has been held that:

The two principal criteria guiding the policy in favor of rendering declaratory judgments are (1) when the judgment will serve a useful purpose in clarifying and settling the legal relations in issue, and (2) when it will ter-

minate and afford relief from uncertainty, insecurity and controversy giving rise to the proceeding.

Grand Trunk Western R.R. Co. v. Consolidated Rail Corp., 746 F.2d 323, 326 (6th Cir. 1984) (quoting E. Borchard, *Declaratory Judgments* 299 (2d ed. 1941)).

Declaratory judgments are "indisputably appropriate" in patent cases. *Hanes Corp. v. Millard*, 531 F.2d 585, 592 (D.C. Cir. 1976). In *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731 (Fed. Cir. 1988), the Federal Circuit offered the following persuasive illustration of the value of declaratory judgments in the patent context:

This appeal presents a type of the sad and saddening scenario that led to the enactment of the Declaratory Judgment Act (Act), 28 U.S.C. § 2201. In the patent version of that scenario, a patent owner engages in a *danse macabre*, brandishing a Damoclean threat with a sheathed sword. [citation omitted]. Guerilla-like, the patent owner attempts extra-judicial patent enforcement with scare-the-customer-and-run tactics that infect the competitive environment of the business community with uncertainty and insecurity. [citation omitted]. . . . After the Act, those competitors were no longer restricted to an *in terrorem* choice between the incurrence of a growing potential liability for patent infringement and abandonment of their enterprises.

Id. at 734-35 (emphasis in original); see also *Goodyear Tire & Rubber Co. v. Releasomers*, 824 F.2d 953, 956

(Fed. Cir. 1987) (the purpose of the Declaratory Judgment Act "in patent cases is to provide the allegedly infringing party relief from uncertainty and delay regarding its legal rights").

In light of its recognition of the importance of declaratory judgments in the patent context, it is particularly ironic that the Federal Circuit, through its practice of routinely vacating such judgments, only allows an accused infringer to avail itself of the remedy of invalidating the patent in those situations in which it has first been found guilty of infringement. Because the court is not compelled by the mootness doctrine to vacate the validity question, it should exercise its discretion with a view towards effectuating the purposes of the Act. The facts of this case amply demonstrate that the purposes of the Act are best served by a review of validity determinations.

As the cases discussed in the arguments regarding mootness reveal, in actions in which validity has been raised in a declaratory judgment claim, a controversy can continue to exist even after claims of infringement have been abandoned or repudiated. *Bard*, 716 F.2d at 881; *Air-Vend*, 625 F. Supp. at 1128; *Dale Electronics*, 488 F.2d at 390. Among the factors found indicative of a continuing reasonable apprehension of an infringement suit in such circumstances are: the willingness of the patentee to be involved in other litigation related to the subject patent (*Bard*, 716 F.2d at 881); the apprehension of the threat of a patent infringement suit on other products being produced, marketed or intended to be produced and marketed which were not subject to the initial infringement allegations (*Air-Vend*, 625 F. Supp. at 1127-28); and

the fact that the allegedly invalid patent will remain a marketing device for the patentee if the declaratory judgment action is not permitted to proceed (*Id.* at 1128). The existence of these issues has compelled courts to reach the question of patent validity even when claims of infringement have been withdrawn or repudiated. Many of these factors are present in this case and their presence strongly suggests that it is appropriate for the Federal Circuit to reach the issue of validity.

In this action, Cardinal did not assert its counterclaim merely as an affirmative defense, but rather to obtain a declaration of its legal rights in the face of general threats from Morton regarding the infringement of Morton's patents. Recognizing this fact, the district court entered judgments on both the affirmative claim of infringement and the counterclaim of invalidity. The district court's decision was plainly correct as the facts of the case clearly indicate that Cardinal had a reasonable basis for maintaining its declaratory judgment claim. These considerations included the fact that after the *Argus* trial Morton wrote letters to Cardinal's distributors threatening legal action should the distributors continue to purchase the subject products from Cardinal. See District Court trial record ("T.R.") Testimony of Ross at Volume III, pp. 3-74 through 3-76 and T.R. Exhibit Nos. DTX-229 through DTX-247. Other considerations entailed the fact that Cardinal also manufactures and continues to develop products containing organotin compounds similar to those subject to Morton's infringement charges; that Morton continued to pursue its infringement action against Cardinal even after the patents in suit were found invalid by a Louisiana

district court, a judgment which was subsequently vacated by the Federal Circuit pursuant to the practice presently at issue in this action; and that Morton was pursuing a third infringement suit against Atochem North America.

The Federal Circuit did not consider any of these factors in this case because its "established practice" left no room for such analysis. In this case, application of the policy meant that the court effectively overruled the district court's determination that judgment on the counterclaim was necessary without any explanation save the invocation of its policy and a citation to *Vieau*. By so doing the court deprived Cardinal of the "relief from uncertainty, insecurity, and controversy" to which it was entitled under the Declaratory Judgment Act and has allowed Morton to continue to threaten Cardinal and the market with an invalid patent.

C. The Practice Frustrates The Policies Set Forth In This Court's Decision In *Blonder-Tongue*

In *Blonder-Tongue Laboratories v. University of Illinois Foundation*, 402 U.S. 313 (1971) this Court addressed the following question:

Should the holding of *Triplett v. Lowell*, 297 U.S. 638 [1936] that a determination of patent invalidity is not res judicata as against the patentee in subsequent litigation against a different defendant, be adhered to?

Id. at 317. The Court resolved this issue by concluding that it should not continue to follow the doctrine of mutuality set forth in *Triplett*.

The practice this Court overruled in *Triplett* had the same effect as does the Federal Circuit's practice

of routinely vacating declaratory judgments of patent invalidity. Because the Federal Circuit's decision on whether to reach validity is a discretionary one, the court clearly errs when, in making this determination, it fails to consider the significant prudential concerns addressed by this Court in *Blonder-Tongue*.

In *Blonder-Tongue*, this Court found that continued adherence to *Triplett* would have significant economic consequences. Specifically, the Court noted that there is "an arguable misallocation of resources" in permitting "a litigant more than one full and fair opportunity for judicial resolution of the same issue." 402 U.S. at 328-29. This misallocation is particularly acute in patent cases as "the expense of defending a patent suit is often staggering to the small businessman." *Id.* at 334 (quoting *Picard v. United Aircraft Corp.*, 128 F.2d 632, 641 (2d Cir. 1942) (J. Frank, concurring)). Moreover, this Court found that "it is clear that abrogation of *Triplett* will save some judicial time if even a few relatively lengthy patent suits may be fairly disposed of on pleas of estoppel." *Id.* at 348 (emphasis in original).

The Court also expressed concern that continued fidelity to *Triplett* would mean that:

In each successive suit the patentee enjoys the statutory presumption of validity, and so may easily put the alleged infringer to his expensive proof. As a consequence, prospective defendants will often decide that paying royalties under a license or other settlement is preferable to the costly burden of challenging the patent.

Id. at 338. The Court found this prospect particularly troubling, quoting favorably from the Report of the President's Commission on the Patent System which stated that:

[A] patentee having been afforded the opportunity to exhaust his remedy of appeal from a holding of invalidity, has had his 'day in court' and should not be allowed to harass others on the basis of an invalid claim. There are few, if any, logical grounds for permitting him to clutter crowded court dockets and to subject others to costly litigation.

Id. at 339-40 (quoting Report of President's Commission on the Patent System, Recommendation XXIII at 38).¹¹

For these reasons this Court concluded that *Triplett's* failure to permit courts to recognize as preclusive the determinations of other courts on invalidity absent mutuality was erroneous and should be overruled. *Id.* at 350. The practice of the Federal Circuit at issue in this case produces the same results as *Triplett* through other means, *i.e.*, resurrecting patents rather than not allowing them to die. This practice completely frustrates and circumvents *Blonder-Tongue* as is starkly illustrated by the facts of this case.

By vacating the *Argus* judgment of invalidity, the Federal Circuit permitted Morton to continue its suit against Cardinal. As a result, Cardinal was forced to

¹¹ It was this type of harassment of a small competitor based on an obviously invalid patent which was the basis for Cardinal's claim for an exceptional case award under 35 U.S.C. § 285.

expend over a million dollars on state of the art experiments, testing and on attorneys fees and costs in defending itself and prosecuting its declaratory judgment counterclaim. None of this would have occurred had the Federal Circuit not vacated the *Argus* determination of invalidity as *Blonder-Tongue* would have required the South Carolina district court to accord the *Argus* judgment preclusive effect.

The Federal Circuit, however, added insult to injury by using the challenged practice to require Cardinal to defend against Morton's infringement action, and then later used the same practice to deprive Cardinal of its hard-earned declaratory judgment of invalidity as well. The ramifications, however, did not end with Cardinal, as Morton, despite having its patents twice found invalid, has now been given license by the Federal Circuit to pursue a third infringement action on these patents against Atochem North America in the Delaware district court.

It is precisely this sort of scenario that this Court sought to avoid in *Blonder-Tongue*. The Federal Circuit's practice is virtually identical in impact to that of the doctrine of mutuality abandoned in *Blonder-Tongue*. The practice clearly results in a "misallocation of resources" as it permits "a litigant more than one full and fair opportunity for judicial resolution of the same issue." 402 U.S. at 328-29. This misallocation has led to legal expenses which are "staggering to the small businessman." *Id.* at 334 (quoting *Picard v. United Aircraft Corp.*, 128 F.2d 632, 641 (2d Cir. 1942) (J. Frank, concurring)). It is also clear that abrogation of the Federal Circuit's practice will "save some judicial time if even a few relatively lengthy patent suits may be fairly disposed of on pleas of

estoppel." *Id.* at 348 (emphasis in original). Continued adherence to the practice will also have the practical effect that "prospective defendants will often decide that paying royalties under a license or other settlement is preferable to the costly burden of challenging the patent." *Id.* at 338.

In contrast, it is difficult to conceive of considerations of prudence and comity which are served by the Federal Circuit's current practice. Prior to *Vieau* and *Fonar* the Federal Circuit reached both infringement and validity without any apparent burden. *Mannesmann*, 793 F.2d 1279. In this action Judge Lourie did not find it burdensome to reach the validity question in his concurring opinion. Clearly the small amount of judicial time which is saved by not reaching validity is offset by the potential for and, in this case, the reality of continued litigation spawned by the resurrection of the invalidated patent.

D. The Practice Undermines The Integrity Of The Patent System

This Court has recognized that there is a significant public interest which courts must consider in patent cases. Justice White in his concurrence in *United States v. Singer Mfg. Co.*, 374 U.S. 174 (1963), defined that interest as:

[T]he public interest in granting patent monopolies only when the progress of the useful arts and of science will be furthered because as the consideration for its grant the public is given a novel and useful invention. U.S. Const., Art. I § 8; 35 U.S.C. § 101; Statute of Monopolies, 21 Jac. I, c.3. When there is no novelty and the public parts with the mo-

nopoly grant for no return, the public has been imposed upon and the patent clause subverted. [citations omitted].

Id. at 199-200.

Public interest is particularly significant in cases such as this when a court is faced with the decision of whether to reach the issue of validity. In *Sinclair & Carroll Co. v. Interchemical Corp.*, 325 U.S. 327 (1945) this Court stated:

[T]here has been a tendency among the lower federal courts in infringement suits to dispose of them where possible on the ground of non-infringement without going into the question of validity of the patent. [citations omitted]. It has come to be recognized, however, that of the two questions, validity has the greater public importance, *Cover v. Schwartz*, 2 Cir., 133 F.2d 541, and the District Court in this case followed what will usually be the better practice by inquiring fully into the validity of the patent.

Id. at 330.

In *Sinclair* this Court relied upon *Cover v. Schwartz*, 133 F.2d 541 (2d Cir. 1942), *cert. denied*, 319 U.S. 748, *reh'g denied*, 319 U.S. 785 (1943), to support its conclusion that inquiring fully into validity was the "better practice." In that case the Second Circuit found that addressing validity first was preferable for a number of reasons. First, the court found that "a decision as to invalidity will tend to discourage suits against others based on that patent." *Id.* at 545. The court also concluded that "mere threats of patent suits, due to the expense of defending such

litigation, may often prevent lawful competition which will be in the public interest." *Id.* Finally, the court found that "the desirability of a decision as to invalidity is especially important because it is the general rule that the government cannot bring suit to have a patent declared invalid, except for fraud inducing its issuance." *Id.*

Decisions subsequent to *Sinclair* and *Singer* have echoed and expanded upon these public policy concerns. In *Lear* this Court expressed concern about the public being required to "pay tribute to would-be monopolists without need or justification." 395 U.S. at 670. In *Blonder-Tongue*, it was noted that "[a] patent yielding returns for a device that fails to meet the congressionally imposed criteria is anomalous." 402 U.S. at 343. Many cases emphasize the importance the Declaratory Judgment Act plays in fostering these policies. See, e.g., *Arrowhead*, 846 F.2d at 735 n.4 ("[t]he Act serves the policies underlying the patent laws by enabling a test of the validity and infringement of patents that are possibly used only as what Leaned Hand, in *Bresnick v. United States*, 139 F.2d 239, 242 (2d Cir. 1943), called 'scarecrows'"); *Societe de Conditionnement v. Hunter Engineering*, 655 F.2d 938, 943 (9th Cir. 1981) ("the availability of declaratory relief serves both judicial efficiency and the policies underlying the patent laws").

The Federal Circuit's practice utterly frustrates these policies as is demonstrated by this case. Two district courts after extensive trials have determined that Morton's patents are invalid, i.e., they do not possess certain statutory criteria for patentability and, accordingly, do not further the Constitutional pur-

pose. *Blonder-Tongue's* description of such patents as "anomalous" is clearly apt in this instance. Nevertheless, the Federal Circuit vacated both of these determinations without explanation.

The strength of the patent system is predicated upon its integrity. For this reason the ramifications of allowing a significant number of anomalous patents into the system are severe. The Federal Circuit, through the challenged practice, has allowed a substantial number of patents found invalid after full and fair hearings to remain in force. This practice runs directly counter to the policy concerns this Court has voiced in *Singer*, *Sinclair*, *Blonder-Tongue* and *Lear*. It plainly encourages rather than discourages the use of invalid patents as "scarecrows" and, as this case illustrates, needlessly increases the amount and cost of litigation.

III. THIS COURT SHOULD REVERSE THE DECISION OF THE FEDERAL CIRCUIT

The decision of the Federal Circuit to vacate the judgment of invalidity must be reversed and the case remanded with the instruction that the court reach the validity issue. The doctrine of prudential mootness provides the only possible basis for the Federal Circuit declining to reach validity. As noted previously, the doctrine should be applied on a case-by-case basis and only if after deciding one issue the remaining issues are "attenuated" and a decision on them would be "futile." The repercussions of the Federal Circuit's failure to reach validity were quite substantial to Cardinal in this case. Specifically, vacatur of the *Argus* invalidity determination directly resulted in Cardinal being required to defend against Morton's suit at the cost of over a million dollars. The practice was then

applied in this action to strip Cardinal of its hard-earned declaratory judgment finding the patent invalid and deprive it of the "relief from uncertainty, insecurity and controversy" it was entitled to under the Declaratory Judgment Act. With a third suit pending on these same patents, it is likely this scenario will play itself out once again at tremendous costs to the accused infringer and the judicial system. Not a single significant prudential concern is evident which would override the factors addressed herein so as to justify the conclusion that reaching validity in this case would serve no useful purpose.

Cardinal believes that the factors which dictate reaching the validity issue in this case also operate in most cases in which the district court has found patents invalid based upon a declaratory judgment claim. While the facts of this case are particularly stark, thus compelling the court to reach the validity issue, the Federal Circuit does have discretion to address this issue on a case-by-case basis. However, it is clear that in virtually all cases in which a district court has found a patent invalid the prudential concerns addressed herein lead to the inexorable conclusion that the court should reach the issue.

Those cases in which the district court rules on the declaratory judgment claim by finding a patent not invalid present a somewhat different situation. Unlike a finding of invalidity, a determination that a patent is not invalid does not have preclusive effect. *Allen Archery, Inc. v. Browning Mfg. Co.*, 819 F.2d 1087, 1092 (Fed. Cir. 1987). For this reason the prudential concerns are reduced, but not extinguished. For example, as discussed in section II. B., regardless of the outcome in the district court, a case or contro-

versy may very well remain with respect to validity. While the concerns raised by *Blonder-Tongue* and public policy are much less if the district court has found the patent not invalid, the potential for reversal if the Federal Circuit did reach validity means that these concerns cannot be discounted entirely.

As to the final category of cases in which validity has been raised only as an affirmative defense, it is clear that pursuant to *Electrical Fittings*, the question of validity is jurisdictionally mooted by a finding of noninfringement and, accordingly, the Federal Circuit has no alternative but to vacate such a finding.

IV. CONCLUSION

In conclusion, for the reasons set forth herein, Cardinal respectfully requests that this Court reverse the decision of the Federal Circuit vacating the judgment of invalidity of the Morton patents and remand the case with instructions that the court reach the validity issue.

Respectfully submitted,

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